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ABSTRACT

This is one of several papers presented at a Federal Trade Commission Symposium on Media Concentration. It concentrates on describing the book publishing industry from the standpoint of one firm. The emphasis is on the question of entry into the publishing industry by an author, a small publisher, or a book reader. Some of the points made are that subsidiary rights are important to the economic welfare of the companies, the acquisitioned companies are strengthened, the large houses as well as small houses are doing a remarkable job in publishing an eclectic body of fiction, there is increased use of literary agents, approximately three-quarters of the books that the trade department publishes lose money, small publishing companies do have great successes, and book clubs and mass paperback outlets are never supplied by only one hardcover affiliate. Special emphasis is given to the relationship of authors to publishers, and it is noted that both known and unknown authors do have access to publishing process and publishing opportunity, are paid better than before, and can and do move from publisher to publisher. (MKM)

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Statement by Winthrop Knowlton

President and Chief Executive Officer

Harper and Row, Publishers, Inc.

Before Federal Trade Commission

Symposium on Media Concentration

Washington, D.C.

Friday, December 15, 1978

"PERMISSION TO REPRODUCE THIS MATERIAL HAS BEEN GRANTED BY
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My name is Winthrop K- ton, and I am president and chief executive officer of Harper & Row, Publishers, Inc. I am also (for a term of one year expiring next May) the chairman of the Association of American Publishers, the industry trade association of which Mr. Hoopes is president. But today I wish to address you in my capacity as president of Harper & Row, and to tell you what it feels like to be on the competitive firing line trying to survive in what must be one of the most subtle and complex and economically trying and emotionally exhausting and exhilirating businesses in America. I will try to give you a view of what is real, a view stripped of the ideology and rhetoric and sentimentality that so often characterize the remarks of those who find it so pleasurable to appraise or attack the book publishing industry.

My comments are intended to focus on the question of entry. For I am under the impression that the Federal Trade Commission's ultimate concern with the question of economic concentration has to do with whether someone--in this case an author or a small publisher or a book reader will be denied the opportunity to enter the publishing business; or to have his or her work published; or to read the books he or she wishes.

Mr. Hoopes has already given you an overview of the industry in macro-economic terms. Mine will be a

micro-economic from the standpoint of a single firm.

Harper & Row is the tenth largest book publishing concern in the United States with annual revenues now running at an estimated rate in excess of $150 million a year. We are a diversified house, selling a broad range of text and trade books for adults and children. These come from eighteen separate publishing departments, each operating with almost complete editorial autonomy and only one of which accounts for more than $25 million in annual sales. Last year we sold 22 million books, which sounds like a lot until one realizes that the industry sold over 1.5 billion books and that our overall share of that figure amounted to only 1.5%. While in the eyes of some we may be a publishing giant, we are in the total scheme of things a corporate pygmy. Our shares, which are publicly traded, have a total market value of about $35 million, an amount so minuscule by today's financial standards that no significant pension fund or insurance company or mutual fund would bother to take the time to find out who we are--we are simply too small to be considered eligible for investment. Giant indeed!

Last year Harper & Row paid $15 million in royalties to authors; we paid $6 million in editorial acquisition and development costs; we earned $4.9 million after taxes, and we paid $1.5 million to our shareholders as dividends.

~~through our major hardcover trade operation (the Harper Trade~~

Department) paid out $2.9 million to authors; $1 million for editorial acquisition and development costs; and earned $600,000 after taxes. Included in this $600,000 figure is $800,000 (after taxes) of subsidiary rights income from book clubs, mass paperback houses, and others.

Without this income our trade operation--like every other trade department in the business--would have operated at a loss. Because subsidiary rights income fluctuates widely, we have over the years, like other houses, brought stability to our overall operation by diversifying into other book publishing fields--sometimes through acquisition. I will not comment on these acquisitions in detail except to tell you that following acquisition we have greatly strengthened the editorial effort of the new departments, increased the size of their lists, and in several cases, prolonged the lives of publishing operations that would otherwise now be defunct.

To return to the figures I gave you a moment ago: I cite them to put the importance of several of our constituencies--authors, editors, and shareholders--in some sort of perspective, for there have been assertions that when corporate ownership moves from families to larger, more impersonal shareholders groups, the latter rip everyone off. If Harper trade authors were to <u>own</u> the Harper & Row trade operation instead of receiving

royalties, their take-home pay would drop precipitously! This would be true in the case of other authors at other trade houses too.

For a number of years now our hardcover Trade operation has published approximately 200 books a year. This is on the large side, as trade lists go. The assertion is made that as publishing companies grow, they lose interest in fiction or in poetry or in new, young writers -- thus denying them "access" — and become interested only in "best sellers" or "commercial works." The "big" book is said to drive out the "small." Of the 400 books published in the last two years, 132 were fiction. Of these 21 were first novels and 12 were volumes of poetry. The amount of fiction published by the larger houses — the Random Houses, Doubledays, and Simon and Schusters — is greater than that published by the smaller houses despite the assertions of the latter that they are innately more tasteful, more virtuous, and more courageous because of their commitment to this kind of work. The fact is, both kinds of houses are doing a remarkable job in publishing as eclectic a body of fiction as one could imagine: 2,000 titles a year: fiction of all sorts, experimental and literary, traditional and commercial, fiction from all parts of the country and the world.

Our Trade Department receives 4,000 unsolicited manuscripts a year, each one of which is read. In addition we receive several thousand

manuscripts from literary agents, whose role in providing access to writers appears to have been largely ignored in the public dialogue on these matters. There are far more literary agents than a generation ago. They serve as a wide-ranging group of talent scouts; they play an important role in protecting the interests of authors in the event that fair access is denied. More about that in a moment.

Of the 200 books our trade department publishes annually, approximately three-quarters lose money. It hurts me to reveal that statistic because it makes me feel we are stupid. But I doubt whether the statistic is different for our competition -- whether they are large or small. It does not seem to me the kind of statistic that one ordinarily associates with undue economic concentration, the kind of concentration that makes it possible to manipulate the marketplace and consumers to one's own corporate ends. Quite the contrary. The fact is that the selection of books for publication is a speculative matter. There is the commonly held belief that the big book -- the one commanding a large advance -- is always a winner; that this is the kind of book that supports the rest of the list; that the pressure to obtain this kind of book preempts support of smaller, more literary works. The fact is that sometimes the large

advance for a book pays off, and sometimes it is a disaster. Sometimes a book written by an obscure author who has received a small advance because an editor had faith in the quality of the person's early work pays off--witness Harper & Row's recent success with THE THORN BIRDS. It is impossible to generalize about this process of editorial selection. The size of the house does not really matter, except that the larger houses tend to be slower in their responses to agents and to authors and hence create opportunities for smaller, nimbler, leaner houses. But ultimately editorial selection is a question of the taste, the judgment, the feel, the predilections, the neuroses, the passions, the experience (and experiences), the dreams and hopes and fears of individual editors and publishers--not the product of market share or size or affiliation with another media.

Mr. Hoopes, I hope, has persuaded you that an astonishingly large number of new titles are being published in the United States and that they are almost infinitely various in subject matter. There are 478,000 titles in print! I hope that as the head of a large publishing house I have begun to persuade you that our transoms are open to a staggeringly large quantity of new material, whether sent in cold-turkey by authors or through the auspices of agents. I hope I have persuaded you that we

have no bias against works of fiction or works of new authors -- even though we are large. I hope I have given you a sense of how long the odds are against making money on a given book of practically any sort. And I hope I have given you a sense of how the spoils -- if there are any, in a given year -- are divided up between various constituencies. I conclude from my own experience that authors, known and unknown, do have access to publishing process and publishing opportunity. And that they are measurably rewarded: whether they are adequately rewarded is a subject one can argue about until the cows come home, for it is impossible accurately to measure the worth of creativity against more mundane, commercial tasks like marketing and accounting. I will simply assert that authors are not being discriminated against — and furthermore, they have never been paid better before (I am the author of three books myself during the last twenty years, so I have some first-hand experience.)

Now what of the small publisher? Does he have a chance? Can he get financed? Can he find books? Can he get them reviewed and distributed and sold? I know from my own experience that small presses have been springing up everywhere. They often come to us (and other established houses) for advice and help and sometimes for marketing services. We are happy to oblige

because we cannot cover the editorial waterfront ourselves and sometimes distribution arrangements with new firms help us spread our considerable overheads. The amount of capital required to start a new house varies greatly depending on the location and the type of publishing involved. But it is not large as start-up costs go. There is no investment whatsoever required for fixed assets -- our industry has none. And lurking at the edge of our industry, eyeing it enviously -- as though it were an exotic bird with marvelous plumage -- are a remarkable number of successful entrepreneurs -- manufacturers of nuts and bolts -- who feel they can authenticate themselves as human beings if they invest in something "worthy" or "cultural." This is the same kind of money that is drawn to collecting art or to backing plays. It is there. And it helps to start up small firms. Financing is also available from banks and venture capital firms. From 1955 to 1965 I worked for a Wall Street firm that helped finance a number of small companies that have now grown quite large. As some of these firms are gathered into the folds of larger organizations because of second-generation family problems (children don't want to go into the business, founders want liquidity, etc.) it is heartening that so many other small firms are starting up. These are more widely dispersed, geographically, than the early generation of firms -- they

are located in places like Burlington and Boulder and Sausalito as well as New York and Boston--and many of them are more specialized than the new firms a generation ago. This would seem a fitting response to a culture whose needs and tastes are far more specialized. I think of the Tuttles in Vermont, whose company specializes in work from Japan; of the Presidium Press in San Francisco, publishing distinguished works of military history; of Black Sparrow Press in Santa Barbara, which produces books of poetry, music, and literature. For a quick, easy way of gauging the role of specialization in book publishing and the role of newer, smaller firms, go into any large bookstore and examine the cookbook section. At the end of World War II there were to all intents and purposes only two major cookbooks in America: The Joy of Cooking and Fannie Farmer. The other day in a store near me in New York, I counted more than 900 titles. Of these, 25% were published by small, independent firms.

Can the small firm get its books reviewed? Of the 219 books reviewed in the last four issues of the New York Times Sunday Book Review section, 27 were published by small, independent presses (another 18, incidentally, were published by university presses, a competitive force often underrated or ignored in these conversations about concentration). Of the Times'

list of the best books of 1978--307 in all--34 were published by small independents (19 more came from university presses). These figures jibe with those cited by Mr. Hoopes. They suggest that the new firms do not simply start up and die. A meaningful number of them make a real contribution. They are real competition for firms like mine.

Do their books sell? Have you heard of The Whole Earth Catalogue, published by The Portola Institute--millions of copies sold? Notes to Myself, Real People Press--well over one million copies sold? Greatest Salesman in the World, Frederick Fell--about 700,000 copies? Guinness Book of World Records, Sterling Publishers; Linda Goodman's Sun Signs, Taplinger; What Color is Your Parachute?, Ten Speed Press; Crockpot Cookery, HP Books; and Handmade Houses, Scrimshaw Press--all individual titles that have sold 100,000 copies or more (several much more).

The large trade houses like Harper & Row not only compete against each other and a host of smaller presses and university presses (which are subsidized) but also against concerns like Standard Oil of California, whose Ortho line of gardening books has carved out an important niche in an important how-to segment of the market; or Sunset Magazine, which sells millions of books of a roughly similar sort. And don't look now, but the British and the French and the Germans are

coming -- opening up branches through which they wish to sell their own trade books in our markets and also to acquire American trade books of their own. And inside the large houses, mini-publishing houses are springing up, the so-called "ego imprints," in which a single editor starts his own line and receives a share of the profits from his books.

I do not see how anyone with a shred of common sense could argue that this is not one of the most fragmented and highly competitive industries in America.

I want now to talk about two aspects of book publishing that differentiate it from other industries. One has to do with brand names. The other with limits to size.

Through the expenditure of time, money, and effort, leading companies in other industries can develop loyalty to the brand names attached to their products. Brute financial force can build market share -- as in the beer industry -- at the expense of smaller companies. In book publishing the brand name is not the name of the publishing house -- the consumer is utterly indifferent to who publishes what books* -- but the name of the author. Our brand names are Michener and Updike and Hersey and Drucker and Wouk. Authors in the modern publishing world are mobile. To mention just a few who have moved in the last several years: Joseph Heller, Theodore White,

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*Book Industry Study Group

Barbara Tuchman, Gail Sheehy, Joan Didion, Saul Bellow, John Cheever, David Halberstam. They move because they are unhappy with editors, or their editors move; or they feel they have not been cared for; or they have not been offered enough money. It is as though the label on the Miller's Lite beer can could peel itself off and walk across the street, in the manner of an animated Disney cartoon, and affix itself to the surface of a Schlitz six-pack. What I am saying, in short, is that one of the classic anti-trust concerns--that leading companies will build impregnable positions in the marketplace through brand loyalty that has been bought through the expenditure of millions of dollars--simply does not exist in our business.

There is another unique characteristic about trade publishing: no house can grow indefinitely. One cannot keep publishing more and more titles each year. There is a point of diminishing returns: editors can only edit a limited number of books per year and do it well. Publishers can only manage so many editors and pay adequate attention to their considerable emotional needs. Designers, salesmen, advertising people--all of them can handle only so many books and maintain freshness or point of view. If this freshness is lost, agents notice it, authors do too, and authors and books are lost to other houses--sometimes smaller houses who are quick to tell the world how lively and fresh and

unbureaucratic they are. I said that the Harper Trade Department published 200 books a year--I think this is at the upper limit of what is desirable--indeed possible. We have other trade-related imprints and departments, but there is a limit to how many of these can function under one roof. Unless they are editorially differentiated from each other, agents and authors become confused about where to send manuscripts and in order to avoid that confusion, send their books elsewhere. Past a certain limit, trade houses can only grow by getting more dollar sales from a fixed number of new titles. And if the universe of publishable titles is increasing because more authors are writing more good books, this automatically creates opportunities for smaller houses operating below the size threshold I have described. That is why I believe the market share of the largest houses is likely to erode; that is why we are essentially in an industry which over the long run is likely to be increasingly characterized by the existence of many medium-sized houses. That is why the oldest and largest trade houses are no larger than they are.

In concluding, I want to turn briefly to the question of access--by publishers and authors--to book clubs and mass paperback outlets. These two branches of the industry are both quite new, of course, and they provide for all of us in book publishing large new

markets that did not previously exist or which we did not have the courage or ingenuity to exploit ourselves. And book clubs and mass paperback houses have provided readers with tremendously enlarged access to books -- all this quite recently.

Harper and Row owns no book clubs or mass paperback operations. Since two of the large book clubs and a handful of the larger mass paper houses are owned by organizations that also own competing hardcover trade operations, we have obviously often asked ourselves whether we and/or our authors were made vulnerable by the absence of captive outlets of this sort. We have so far concluded that we are not. Why not? Mr. Hoopes has indicated why. No book club or mass paper house can possibly meet more than a fraction of its product needs from its captive hardcover operation. They are all deeply dependent on others -- like us. If a book club or a mass paper house were consistently to lean in the direction of its captive hardcover operations, the rest of us -- and there are plenty of us -- would know about it and scream to high heaven. Similarly, if hardcover houses were to provide special deals to their book club and mass paper operations, selling prematurely or "on the cheap" to these marketing siblings, there would be a similar hue and cry, and

authors — remember, these are our brand names -- would desert the offenders in droves. This is the way the real publishing world operates.

Having said that, I will not attempt to deny that there is more concentration in these two segments of the industry than in most (if not all) others. And the price of starting a national general audience book club or a new mass market paper house from scratch is higher than the entry prices I have described for hardcover trade publishing. But this fact of life results from the fact that a few gutsy and innovative men and women started these businesses a generation ago and built solid enterprises. As far as I can determine -- and for obvious reasons I am interested in the matter -- their strength does not derive from unfair competitive practices. And whether they are owned by families or newspapers or broadcasting companies or other publishers is a matter of indifference to us, as long as we are given fair access to the channels of distribution they control. And so far we are.

The book publishing business today is exhilarating and demanding. No two books are alike — and no pattern of sale of rights here and abroad is alike. The competition for the best work -- whether from brand new or experienced authors — is intense. The competition for talented editors and designers and marketers is also strong. All this is bracing. And as it should be. And as I presume you want it to be. It is a free, exhuberant, diversified endeavor. I am confident that our joint and individual efforts are serving our

various constituencies — authors, staff members, shareholders (whoever they may be), students, librarians, readers of all kinds — as well as they have ever been served in the history of this republic. It would be a tragedy for the heavy hand of government to intervene in the process I have described and a bitter irony if authors were to bring it about.